

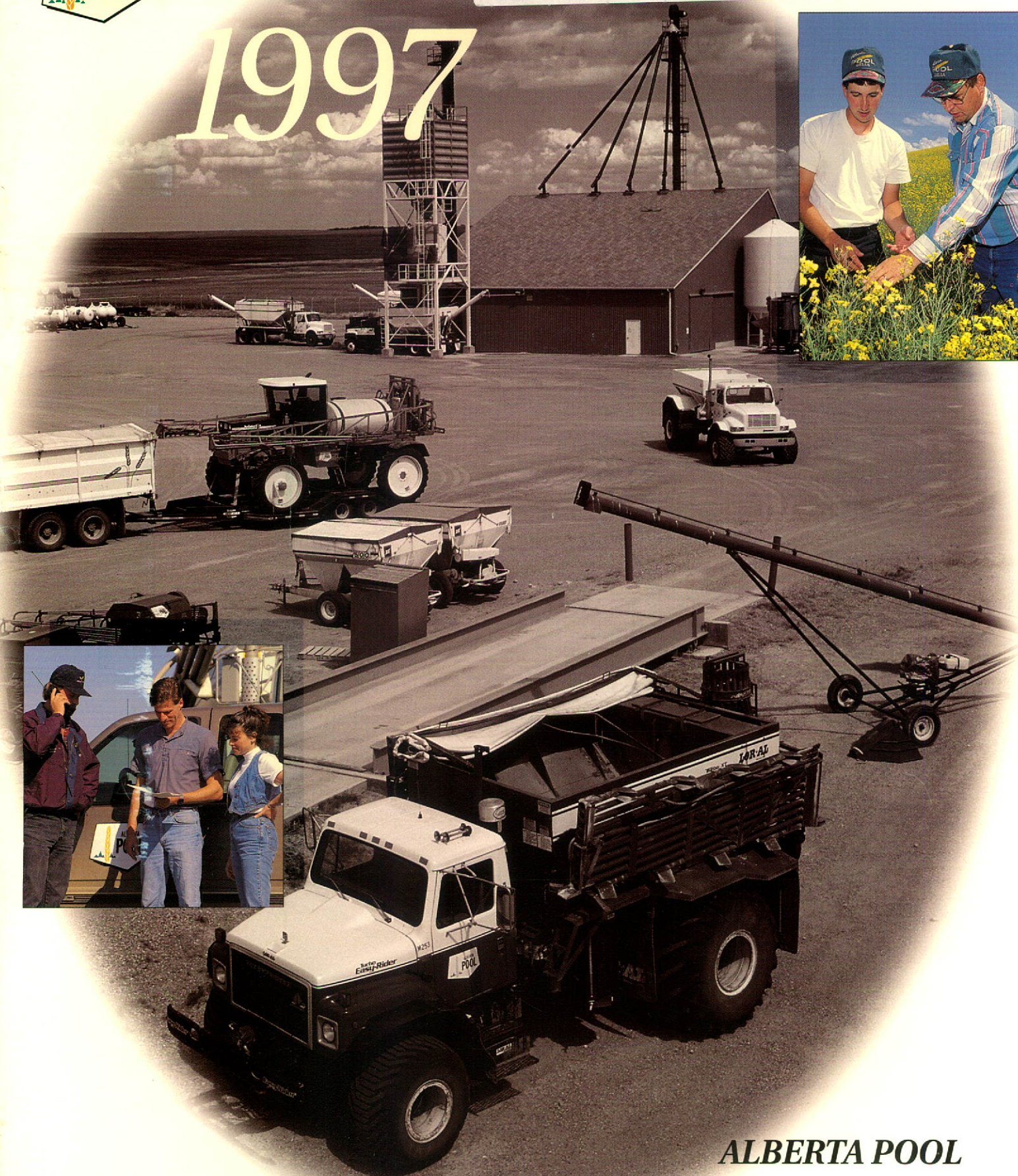
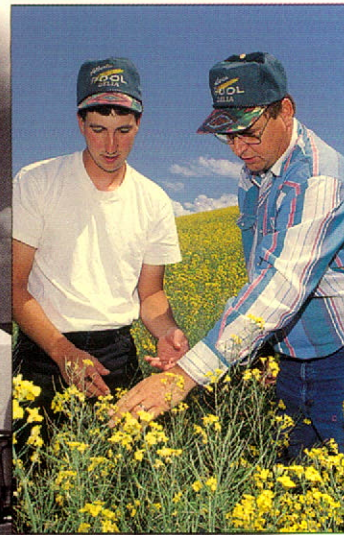


ANNUAL REPORT

Alberta Wheat Pool

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1997



ALBERTA POOL

Solutions & Results

Alberta Pool in Partnership with Farmers

E“Enjoy the rewarding, simple country life.” Those alluring words from a recent real estate ad are correct in one respect. Country life can be rewarding...but it's definitely not simple.

Never has the business of farming been more complex, and never have farmers required access to so much information and expertise. Farmers face constant pressure to stay current on industry developments ranging from new seed varieties to the world commodities futures markets. They need to know what to plant and why; how to get the highest yields through the best use of agronomic products and practices; when to sell and how; and the most efficient way of getting commodities to market.

In short, today's farmers must be financial planners, marketers and agronomic experts — daunting requirements even for the most progressive large-scale producers. Alberta Pool is focussed on supplying the products, services, facilities and expertise which will help

farmers achieve profitable results and allow them to sustain and grow their businesses. In this year's Annual Report feature section, we look at some of the many ways Alberta Pool works in partnership with farmers to find solutions and produce results in this complex and changing industry.



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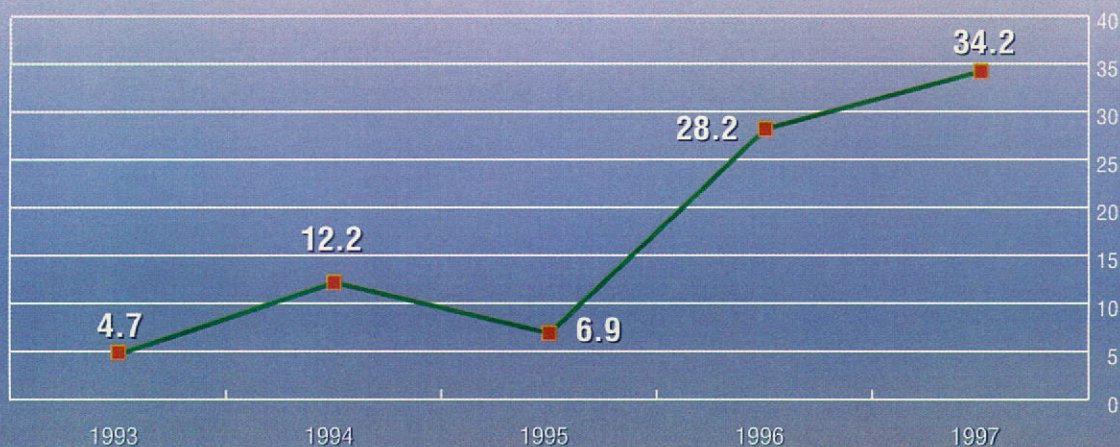
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Highlights & Comparisons

(\$ in 000s)

	1993	1994	1995	1996	1997
Gross Revenue	\$ 1,053,022	\$ 1,435,489	\$ 2,009,989	\$ 2,107,334	\$ 2,051,654
Net Revenue	147,058	170,743	207,082	223,292	230,472
Earnings Available for Patronage	4,733	12,182	6,900	28,248	34,223
Capital Expenditures	15,156	21,289	41,548	25,326	65,452
Working Capital	70,736	68,096	62,530	180,383	154,142
Long-Term Debt to Equity Ratio	38 : 62	34 : 66	32 : 68	50 : 50	47 : 53
Members' Equity	146,490	157,903	161,260	177,951	202,149
Return on Equity (%)	3.26	8.34	4.40	17.83	19.40
Working Capital Ratio	1.31	1.22	1.24	1.84	1.60
Other Statistics					
Grain Shipments (tonnes 000s)	4,703	6,074	6,361	5,519	5,742
Licensed Elevator Capacity (tonnes 000s)					
Country	1,381	1,336	1,207	1,039	1,017
Terminals	482	482	482	482	482
Total Membership	57,429	57,497	56,902	57,136	56,273
Number of Employees	1,421	1,469	1,443	1,366	1,433

Earnings
Available for
Patronage
(\$ in million)



Letter to Stakeholders

Against a backdrop of rapid change in the western Canadian grain industry, Alberta Pool continued to seek opportunities to add value for farmers and end-use customers in 1996/97. The Board of Directors and senior management team focussed on growing a profitable, Canadian, farmer-owned agri-business in a competitive, challenging environment.

For the second consecutive year, Alberta Pool reported strong earnings. Earnings available for patronage were \$34.2 million, of which \$23.5 million (70 per cent) was returned to farmer members.

Despite significantly disrupted grain transportation during an exceptionally harsh winter, we shipped 5.7 million tonnes, up from 5.5 million tonnes last year. Agriculture inputs sales increased to \$296 million from last year's \$274 million. The Board, senior management and staff are pleased by this second year of positive results achieved on behalf of members, but we know more must be achieved, particularly in terms of returns from core businesses.

The Board and senior management continued to work diligently to bring life to the vision and strategic direction which will guide Alberta Pool into the new millennium. Our strategic plan calls on us to:

- expand our supply base
- successfully implement the country business and operating plans
- improve services to customers and improve systems to increase efficiency
- focus marketing efforts on the Pacific Rim and Latin America
- invest in the assets, technology and people to help farmers realize increased profit per acre.

The Environment of Change

The status quo in the Canadian grain industry is simply not an option. Global trade developments, industry deregulation,

transportation rationalization and the growth of value added processing are changing a once-static environment. As organizations attempt to remain competitive, alliances and joint ventures will become the norm, and the number of Canadian grain businesses will be reduced. Globally, the World Trade Organization (WTO), the Canada-U.S. Trade Agreement (CUSTA) and the North American Free Trade Agreement (NAFTA) are leveling the international playing field and opening new markets. At the same time, they are opening domestic markets to more foreign competition.

Coupled with trade deregulation is pressure, particularly from the United States, to eliminate all state trading agencies such as the Canadian and Australian wheat boards. The future of these agencies will be scrutinized when agriculture is negotiated during the 1999 WTO talks.

Policy Issues

Throughout the year, Alberta Pool was a key player in a variety of critical issues facing the industry.

Transportation — Grain transportation difficulties significantly affected service and results in 1996-97. Alberta Pool is acting with other industry leaders in seeking viable and sustainable solutions to this critical transportation situation.

An industry-led review must move ahead quickly following resolution of the Canadian Wheat Board's complaint against the railways to the Canadian Transportation Agency. We expect a system must evolve in which players are held more accountable, but with that accountability must come responsibility and authority to act.

The Canadian Wheat Board (CWB) — Last year's barley vote confirmed significant division of opinion among western Canadian farmers on the future role of the CWB. Alberta Pool's position is that the farmers of western Canada must



Alberta Pool agro centre staff provide on-farm services tailored to the specific needs of individual producers.

ultimately decide that role (although we recognize the Government of Canada will face World Trade Organization obligations). Whatever the future, Alberta Pool will be prepared to meet the challenge.

During the year, Alberta Pool actively sought provisions in current legislative changes to the CWB to make the Board more accountable to farmers. We are pleased our voice was heard in areas such as ensuring the majority of the CWB Board of Directors is made up of active farmers.

Labour — Alberta Pool delegates, committee members and members actively sought improvements to the Canada Labour Code in 1996/97, encouraging MPs and Senators to pass Bill C-66. The Bill would prohibit disruption of grain flow at west coast ports through strike or lockout by third parties. While the original bill died on the order paper when the federal election was called, new legislation is expected to be introduced late in 1997.

Along with other west coast terminal operators, Alberta Pool signed a collective agreement with the terminal union in 1996, making way for cost-effective, continuous operations at our Vancouver and Prince Rupert terminals.

The Country Process

In this period of rapid change and industry restructuring, Alberta Pool's Country Development Process continues to challenge our grain and agro businesses to be market driven, low-cost, logistically efficient and responsive to customer needs. The plan, now in the second of a five-year implementation, is aimed at strengthening Alberta Pool's competitive position and providing improved returns to members.

In 1996/97, the grain division invested \$20.2 million in the country system in the form of seven major upgrades of existing facilities. We also announced construction of seven new concrete and steel facilities, at an estimated cost of \$42.8 million, located strategically to take advantage of rail line efficiencies and marketing opportunities. With the capacity to handle half trains and room for future expansion, the facilities position the cooperative for a strong competitive future.

The grain division continues to focus on moving grain efficiently to meet customer specifications. In 1996/97, we announced three new Mobiload, "traveling elevators", and enhanced trucking services for producers.

The Board and management continue to seek viable opportunities to expand Alberta Pool's supply base to ensure our west coast terminals operate at full potential. An example of these ongoing efforts is our joint venture with Prairie West Terminals Ltd. in a major grain handling facility currently under construction at Dodsland/Plenty in Saskatchewan.

Coupled with the rationalization of the country system is the extension of Alberta Pool's business services in both the Grain and Agro Divisions. We continued to supply the most current market update and pricing information to our elevator managers and to producers through our internet web site (www.awp.com), and we increased to 25 our contingent of producer services representatives (PSRs) who provide on-farm, personalized grain marketing expertise. Within our agro business, we instigated the Certified Crop Advisor training program in conjunction with Westco™ Fertilizer to ensure staff possess the latest agronomic knowledge to help farmers improve production.



Alberta Pool Board of Directors — (left to right)
Neil Silver, 2nd vice-president, district 5; Alex Graham, president, district 9;
George Groeneveld, district 2; Brian Lindeman, district 1; Mel McNaughton, district 3;
John Pearson, 1st vice-president, district 7; Albert Bidruchney, district 6;
Allen Oberg, district 4; Dennis Nanninga, district 8.

*ALBERTA POOL'S
SENIOR MANAGEMENT TEAM
(left to right)*

*Ron Gorst,
general manager, grain division*

*Geoff Southwood,
chief financial officer*

*Bonnie DuPont,
director of human resources and
administration services*

*Ed Rodenburg,
general manager, agri-business division*

*Gordon Cummings,
chief executive officer*

*Dale Riddell,
director of corporate affairs*

Agri-Business

The agri-business division focussed on providing quality products and specialized services, and at the same time, increasing efficiency through inventory and distribution controls at agro centres throughout the province.

The division continued to seek out new markets for special crops and opportunities for value added processing. One example is the 10-year strategic alliance we entered into this year with the Alberta-based health sciences and nutraceutical company, CEAPRO, to supply oats for processing into health-related products. Also during the year, the Bean Business Unit relaunched a dehydrated, refried bean product into the United States, and Prairie Sun Grains pursued new markets in Canada and the U.S. for its line of organic products.

People

People have always been Alberta Pool's most valued asset. This has never been more apparent than in 1996/97

when Alberta Pool staff — in the country system; in our special crops, bean and seed business units; at the terminals; and in the Calgary office — faced challenges on many fronts. The Board and senior management express gratitude to the staff and their supportive families for their ongoing commitment and sustained efforts throughout the year.

Alberta Pool continued to recruit and hire competent individuals capable of preparing the organization to meet future challenges. We also continued to invest extensively in training and development to ensure staff have the knowledge and skills to provide superlative service to customers.

Technology

The modernization of the country elevator system is apparent to anyone who drives through rural Alberta. Another less visible modernization at Alberta Pool will impact every aspect of our operations, creating a more sophisticated organization better prepared to meet the mushrooming





In 1996/97, Alberta Pool announced construction of seven new facilities strategically located to take advantage of rail line efficiencies and marketing opportunities.

technological demands of the future. Last year, the Board approved a \$24 million capital investment for a complete overhaul and upgrade of Alberta Pool's information systems.

A team of highly motivated employees has been chosen to implement the leading-edge SAP system of integrated software in a staged progression during 1997/98. SAP will change virtually every business function. It will provide more consistent and reliable data and result in improvements ranging from enhanced financial status reports to faster driveway service.

Equity

In 1996/97 we reached a milestone of more than \$200 million of member equity in Alberta Pool. The new Member Equity Plan, instituted in 1996, provides members with flexible options for the return of equity and offers a solid investment opportunity. Members have demonstrated their confidence by investing more than \$10 million in the cooperative's Class C preferred shares. Total individual investments in Alberta Pool, including Class C preferred shares and member and employee loans, is now more than a quarter of a billion dollars.

Environmental Initiatives

Alberta Pool is committed to protecting the environment in all business operations from transporting agronomic products to controlling grain dust emissions at elevators and terminals. During the year, we revised environmental policies to reflect current requirements and conducted environmental and safety audits on crop protection warehouses, all of which complied with government and industry standards.

The bid for United Grain Growers (UGG)

While we achieved many of our goals in 1996/97, including an increased market share of Alberta country receipts, the year was not without disappointment. Our bid, with Manitoba Pool Elevators, to purchase United Grain Growers (UGG) and create a prairie-wide, farmer-owned enterprise was withdrawn. This experience has strengthened our conviction that visionary thinking and the courage to take action are requirements for success in the current environment of accelerating change.

The bid was based on the belief that consolidation of the Canadian industry will occur. The following vision and principles guided the bid: Alberta Pool will be part of THE Canadian grain company of the future; the company will be Canadian owned and controlled; Alberta farmers will have a meaningful say in running the larger organization.

Although these were strategic imperatives, we recognized any action by the cooperative must also provide a return on investment for member-owners. Based on the share purchase price in the UGG/Archer Daniels Midland (ADM) alliance, we chose not to re-bid. Alberta Pool originally offered \$13.75 per share for all United Grain Growers common stock. We also made a clear decision that at or near a price of \$16.00 per share for all UGG shares, we would not realize the value necessary for an adequate return on investment. The Pool was successful in selling all its UGG shares at a price sufficient to cover costs associated with the takeover bid.

While we are disappointed that the vision for a prairie-wide, farmer-owned grain company will not become an immediate reality, we remain committed to achieving that vision through other opportunities.

The Future

As a new Canadian grain industry takes shape, the future will continue to pose complex challenges. Liberalization of world trade marches forward. As Canada attempts to remain competitive in this new liberalized environment, we also face the continued pressure of foreign ownership by multinational conglomerates as witnessed by the recent alliance of the U.S. agri-giant ADM with UGG.

Alberta Pool believes a strong, prairie-wide Canadian grain company is imperative if western Canadian farmers are to have a significant, competitive international marketing presence in relation to farmers of other countries. A number of options — alliance, merger, joint venture or other relationship — exist for the creation of such an organization. The new enterprise must have the size and efficiency to benefit western Canadian farmers and help ensure Canada's competitive status in the global marketplace.

In seeking to create this organization, Alberta Pool will not lose sight of our strategic thrusts. We will focus steadfastly on the performance of our core businesses, and embrace the ongoing challenge of improving service to farmers and end-use customers.

As we meet the growing challenges of an industry in transition, we look forward to working in partnership with farmers and end-use processors towards future growth and profitable results.

Alex Graham
President

Gordon Cummings
Chief Executive Officer

Alberta Pool in *Partnership with Farmers*

Solutions & Results

Knowledge is power

As the business of agriculture evolves in a deregulated global economy, knowledge and information become vital components of successful farm operations. Many busy farmers, however, don't have the time or resources to access data which can ultimately give them a financial edge. Alberta Pool is responding to this growing need for information as part of our commitment to add value for farmers.

Ian Morrison, Alberta Pool's market strategist, has his finger on the pulse of the industry. He spends hours each day pouring over the latest marketing trends, world agricultural outlooks and pricing data and is in constant contact with traders, brokers and other industry experts.

Morrison condenses this mass of information into a user-friendly "Market Update" bulletin for wheat, barley and canola, available every few weeks. The update highlights grain movement and pricing, and makes planting and selling recommendations. "Our goal is to bridge the information gap," says Morrison. "We look at what's happening in world markets and futures markets, and we relate these conditions to the Canadian market and what's going on at the farm gate.

"I consider myself somewhat of a portfolio manager for commodity production. For example, based on the world situation last year, we recommended individuals plant as much durum as possible. That turned out to be a winner with prices forecast at record levels in 1997-98."

Forward Pricing and Profitability

The weekly "Market Update" can help farmers make pricing decisions well in advance of harvest, perhaps even well in advance of seeding, and Alberta Pool's full range of marketing options and contracts allow farmers to merchandise year round, not just after grain is in the bin. "By moving to profitability based on attained margins

rather than the highest price, farmers reduce their risk from dramatic price fluctuations in the market," says Morrison.

Alberta Pool's elevator managers and producer services representatives are available to help producers take advantage of marketing options and forward pricing. Alberta Pool members can also access the "Market Update" bulletin through our internet web site, Alberta Pool Online.

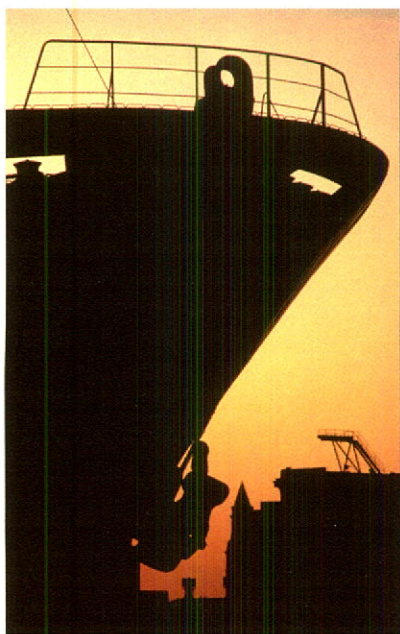
For farmers who have ventured into the world of cyberspace, Alberta Pool Online is another value added information vehicle available at no cost. More than 5,000 individuals visit the simple-to-use, graphically appealing site each month.

The site provides access to current commodities and futures prices and local elevator grain prices. It offers information on virtually every aspect of Alberta Pool's business from new seed varieties to publications like "Common Ground" and this Annual Report.

It also provides links to a huge range of other ag-related sites including the Farm Information Management System with data from industry, government, other professionals and some 10,000 farmers coast to coast.

Alberta Pool's "Inside Alberta Farming" magazine, with its lively graphic design and readable articles, is the only Alberta-specific farm information publication available to producers. Issued quarterly, the magazine features insights, articles and interviews with the industry's top agronomic and marketing experts.

"The mission is to help farmers maximize returns," says Harold Schmaltz, manager, agro business. "We also make "Inside Alberta Farming" available on audio tapes so producers can listen while they work." And, Alberta Pool runs "Inside Alberta Farming" radio spots throughout the province, providing convenient, capsule material to help farmers stay current on agronomic practices, issues and trends.



Alberta Pool provides the knowledge and expertise to help farmers successfully market commodities in a deregulated global economy.



The computer has become an invaluable tool for many farmers. Alberta Pool's web site, www.awp.com, provides access to a world of up-to-the-minute agronomic information.

In the Beginning was the Plan

Alberta Pool delegate Randy Gridley farms 2,200 acres near Morrin with his father and brother. At 25, he is representative of a new generation of farmers, as comfortable in front of a computer screen as he is in the combine cab. He also represents an increasing number of farmers taking advantage of services provided by Alberta Pool's producer services representatives (PSRs).

With rationalization of the grain handling system, elevators are situated further apart. At a time when information flow is vital to successful farm operations, the once-regular contact between elevator manager and farmer has been reduced. In response to this information gap, Alberta Pool created the PSR position.

Delegate Gridley and Hanna PSR Cliff Upton have worked together for the past two years. "As the industry changes, the PSR is definitely necessary in terms of farmer contact," says Gridley. "We look to Cliff primarily for help with marketing, grain pricing and grain movement."

PSRs are trained extensively in business development, commodity marketing, and grain strategies, giving them the expertise to provide a comprehensive package of on-farm services. These services range from supplying the most current pricing information and contract options to developing business and marketing plans which paint a picture of a farmer's overall financial strength and cash flow needs. PSRs also buy and sample grain, organize grain pick-up, and help find solutions to agronomic problems in conjunction with Alberta Pool agro staff.

Upton and other PSRs meet with farmers as early as January to discuss seeding plans based on agronomic and market factors. Seeding intentions along with cost projections are entered into the PSR's laptop computer to generate a marketing plan.

"The PSR's marketing program allows us to estimate our cost per bushel before we even seed," explains Gridley. "From there we project a break even point, then determine our target prices for profitability. When you have an idea of what it will cost to get a bushel to market, you can start to look at the commodities futures prices."

Done annually, marketing plans indicate long-term average yields and prices, and become valuable planning tools. "Everybody has a general idea of these things, but Cliff's computer program helps us keep track more than we were able to in the past," says Gridley.

What's the average?

"Some producers, such as the Gridleys, are open to marketing strategies like price averaging," says Upton.

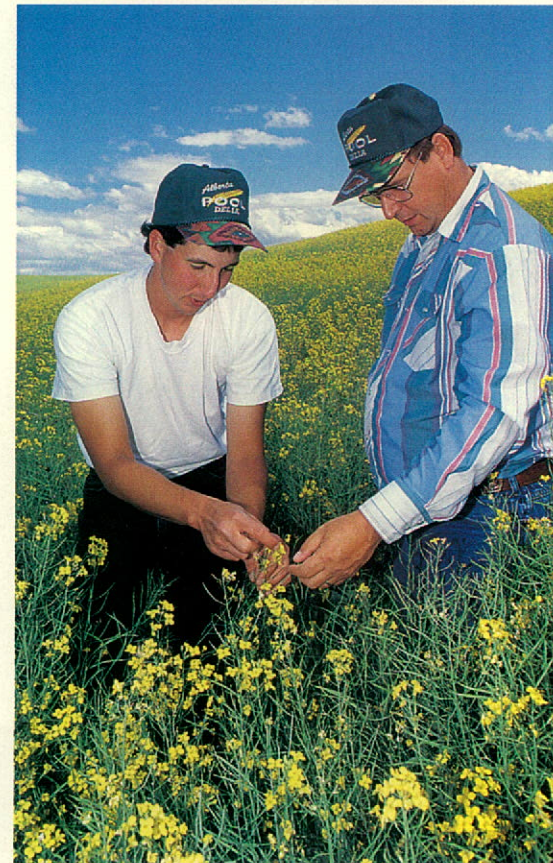
Gridley is quick to point out the value: "When you consider the variables affecting us such as weather and world production, you can see price averaging is one of the only ways we have of putting stability into the business."

PSRs tailor their services to meet specific customer needs. Upton, for example, works with individuals, partnerships, corporate farms and Hutterite Colonies. Pete Stahl, field boss at the 780-member Starland Colony near Morrin, has come to rely on the PSR's assistance. "The first time we met, I figured it might be a waste of time," says Stahl, "but the more he started coming around the more we realized how much he could help."

"For sure Cliff has made a difference to the Colony's bottom line. We got pretty lucky selling canola last year. To start with,

I was going to bin everything, but Cliff called and said canola was at a certain price and suggested we might want to consider selling. I said 'o.k., let it go'. It turned out almost everyone who binned canola last year lost money. I guess you'd say Cliff takes away a little of the stress."

Alberta Pool currently has 25 PSRs working in the province and anticipates adding more as the need arises. Together with elevator managers and agro services staff, the PSRs are the eyes and ears of Alberta Pool in the community, helping ensure we understand and meet producer needs.



Delegate Randy Gridley (l) with PSR Cliff Upton: "The PSR's marketing program allows us to estimate our cost per bushel before we even seed."

Alberta Pool in *Partnership with Farmers*

What comes out... must go in!

In a competitive industry with highly specific end-use customer requirements, factors such as crop yield and quality can make all the difference to profitability. Alberta Pool continues to play a major role in developing and supplying superior seed to help give farmers a leading edge.

Alberta Pool works hand in hand with the other prairie pools in the arduous process — sometimes 10 years or more — of researching, testing, registering and marketing new varieties of canola, peas, barley, wheat, oats, rye and alfalfa. The research partnership also involves public and private organizations and some of the world's leading plant breeders.

"Our research has been aimed primarily at agronomic improvements," says Dick Klaffke, manager of research and development. "We identify specific requirements such as higher yield, more disease resistance, better standability, early maturity, etc., and we breed for those desired results."

More recently, research objectives have been broadened to include specific quality components desired by end-use processors. The research unit is currently exploring new quality specifications in a variety of commodities with major processors throughout the world.

"These research relationships are advantageous to producers since they provide potential opportunities for future commercial production of private varieties," explains Klaffke. "B1602 barley, developed in partnership with the U.S. brewing giant, Anheuser Busch, is a good example of how the relationship works."

The prairie pools developed the six-row B1602 to meet the brewer's requirements. A large contracting program was then initiated to supply certified seed. "It gave us access

to a market we otherwise would not have had. It is the type of partnership we intend to develop with other grain processors."

Ultrabred is the brand name under which Alberta Pool markets many of its proprietary varieties. "Our mission is to offer significant value to producers through agronomic enhancement and increased marketing potential," says Keith Martin, Ultrabred manager.

"Alberta Pool's understanding of producer needs continues to grow, and we incorporate this information into research and development initiatives," says Martin. "For example, Ultrabred's early-maturing Argentine canola variety, SPRINT, was developed when producers identified a need for a shorter growing period."

Ultrabred has led the way in delivering herbicide-tolerant transgenic canola products to the marketplace. In the 1996/97 crop year, restrictions were lifted for the first time on the Liberty Link system variety, Innovator. Demand was high and the product achieved significant market share. "Last year Alberta Pool was also the only supplier in the marketplace offering a Roundup Ready canola — Ultrabred's variety Quest. We are preparing to meet strong demand for the product in the coming year," says Martin.

Ultrabred's Quantum, an Argentine canola, offers significant advancement in traditional canola yields, as well as resistance to blackleg and easy harvest management. Martin is thrilled at the results delivered by Quantum with some yields in the neighbourhood of 70 bushels per acre last year.

The recent crop year also saw the introduction of Majoret Peas, a green pea with improved standability and harvestability, similar to Ultrabred's yellow pea variety, Carnaval. "Ultrabred now offers the best two standing pea varieties in the marketplace," says Martin.



Michele Kulba, seed analyst supervisor at Alberta Pool's Grande Prairie Seed Lab, tests for germination and purity to ensure quality seed products for farmers around the world.



Rockyview agro centre sales representative Shawn Lunn conducts an insect threshold test - one of many specialized services available from Alberta Pool agro centres.

Current research efforts are aimed at improvements to grain varieties as well as canola and peas. "In the area of livestock use, for example, we're looking at a forage oat, now in the multiplication process," says Klaffke. "A forage barley is undergoing official trials and looks very exciting, and we're also investigating a rye for grazing purposes which will be tested on cattle this spring." He predicts these and other varieties could appear under the Ultrabred brand name within a few years.

"We've worked hard to position Ultrabred as the brand of choice among Alberta growers," Martin adds. "We're committed to providing customers with the seed product and the support that will make a difference to their bottom line."

The "Growing" Business

What to plant and where? Which seed varieties, herbicides and nutrition products to use and when? Which pesticides to apply and how?

Years ago, when varieties and product choices were limited and market demands uncomplicated, the decisions were simple. Today, they are complex, important busi-

ness strategies shaped by changing agroeconomic and world market factors. Recognizing the pressures created by a product-cluttered marketplace and the need for higher, quality-specific yields, Alberta Pool's agro business is focussed on providing the expertise, quality products and services to help producers make the right choices specific to their farming operations.

In a \$24 million investment in recent years, Alberta Pool has modernized its network of 84 agro centres. New and upgraded facilities are complemented by leading-edge agronomic products, application equipment and blending capabilities.

"The value of our fleet of quality equipment was never more apparent as this spring when weather conditions compressed the seeding window in many parts of the province," says Harold Schmaltz, manager, agro business. "We were able to move floaters to meet demand and help some farmers who otherwise would have been unable to complete seeding. The demand for application services was heavy throughout the season."

While facilities and equipment are important, it's the expertise provided by Alberta Pool staff which helps put farmers

ahead of the game. "Our goal is to supply the best crop input advice, not simply adequate advice," says Schmaltz. "That means we must remain on the leading edge of agronomic information."

To that end, some 93 Alberta Pool agro staff throughout the province enrolled in the highly acclaimed Certified Crop Advisor training program in 1997. The comprehensive and demanding program provides the latest in soil and crop management information.

"This kind of practical knowledge, backed by superior products, allows us to meet specific producer needs," says Schmaltz.

"Some producers simply need to purchase product. Others need custom application of seed, fertilizer or herbicide. Some need us to walk the fields. We may be asked to stage weeds or crops, provide soil sampling and analysis and offer advice on crop nutrition, crop protection and herbicide rotation. We are also able to offer incentives which tie grain delivery and agro services together, a situation somewhat unique to Alberta Pool. No matter how complex or simple the issue, our staff will help find the right solutions."



Alberta Pool in *Partnership with Farmers*

Getting it to Market

The best agronomic practices and proper marketing plans are vital to successful farm operations, but in a competitive environment, efficient movement of product to market is also of paramount importance.

"If Canada, Alberta Pool and farmers hope to remain competitive globally and domestically, we need to create efficiencies and reduce costs," says Ken Weiss, manager, transportation and grain marketing. "That's beginning to happen. As the Canadian system rationalizes; as we ship half and full trains out of fewer, larger elevators; as we ship units dedicated to one grain type; we will begin to get the costs out of the system.

"In effect, we need to move from a culture of storage, to a culture of through-put; from pushing grain through the system and trying to find markets, to pulling it through and providing customers exactly what they want."

The system of moving grain is a puzzle of mindboggling complexity requiring logistical expertise. Alberta Pool's grain marketing division works diligently to create cost efficiencies by simplifying the puzzle.

Approximately 15 per cent of grain handled by Alberta Pool is moved directly from the farm to end user. The logistical puzzle for moving grain by truck is even more complex than by rail.

Weiss paints the picture: "In a given week Alberta Pool marketers may have 600 truck loads to move. The loads are coming from 80 different elevators and 40 different farms, and they are being taken to 20 different end users — such as feed lots or mills — who want them delivered on this day or that day of the week within a certain four-hour window of time. The challenge is to route the trucks efficiently and cost effectively so they run maximum loads and still meet end-use customer requirements."

Thanks to the "artificial intelligence" systems RADSS-Rail and RADSS-Trucking, the routing and allocation process is eased

to some degree. Developed jointly by Alberta Pool and the Alberta Research Council, RADSS processes all available data and produces optimum rail car and truck allocation alternatives. The allocations are "massaged" by staff, then RADSS automatically disseminates scheduling notifications to elevator managers, truckers and end users.

A Fluid System

"For Board grains, our focus is to keep the system as fluid as possible so that it doesn't become plugged with grains which aren't being called to market," explains Weiss. "Unfortunately, that's not always possible."

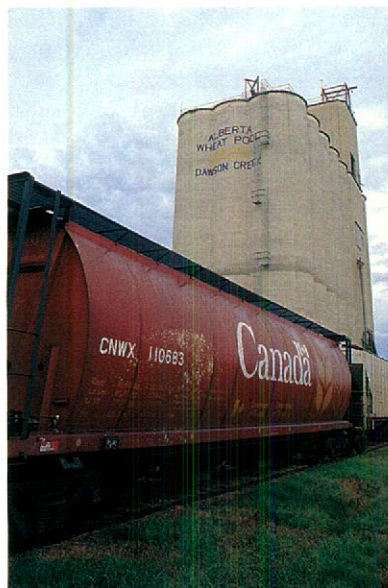
Alberta Pool issues regular updates on which Board grains are expected to move. "Ideally, in a pull vs. push system, the elevator manager should be able to call producers to deliver those grains. The current grain movement system has limited capabilities in this area."

Alberta Pool is working with industry stakeholders — railways, grain companies, terminals, Canadian Wheat Board, government and others — towards major revisions which would create an efficient, workable pull vs. push system. "A great deal remains to be done, but we are making headway."

Looking to the Future

As we approach a new millennium, changes in the global marketplace, agronomic products and practices, and grain movement systems will not only continue, they will continue at an accelerating rate.

The challenges ahead will be many. They will require integrity, vision, determination and optimism. As Alberta Pool faces the challenges, we will focus always on our partnership with producers who are the core and foundation of our organization. We will provide the information, products, services and expertise to help farmers succeed. And, we will grow and create efficiencies within our organization so we can continue to add value to the businesses of our customers.



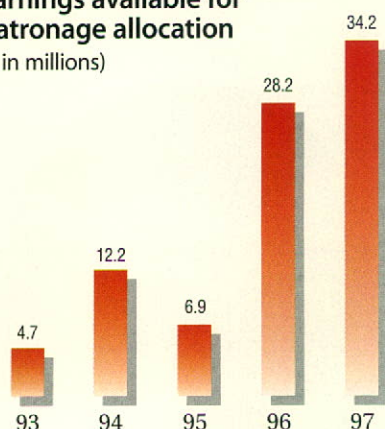
Getting the costs out of the system: Alberta Pool's high through-put concrete facilities can load 52 cars in eight to 10 hours.

Management's Discussion and Analysis of Financial Condition and Results of Operations

EARNINGS

Earnings available for patronage allocation continued the trend of improvement reaching \$34.2 million in fiscal 1997. Results of operations are made up principally of two components; earnings from Western Co-operative Fertilizer Limited (WCFL) manufacturing operations and earnings from the Pool's core businesses.

Earnings available for patronage allocation
(\$ in millions)



The graph depicts the sum of earnings from WCFL, Pool operations, and any unusual items for the year, all net of income taxes. Because the Pool is a cooperative, most of the taxes on earnings are paid by its members on their respective shares of its earnings; the taxes that are paid by the Pool relate to non-member business and to that proportion of earnings which the Pool's delegates and directors decide should be retained as permanent equity. The patronage declared is after considering dividends paid on preferred shares each year.

WCFL

For fiscal 1997, the Pool derived \$19.3 million from its involvement with WCFL, little changed from \$19.4 million for fiscal 1996. WCFL is the major supplier of fertilizer products for the Pool's retail network of agro centres and dual purpose elevator locations. It derives its

income principally from its 34% share in the earnings of Canadian Fertilizers Limited, which operates a nitrogen/anhydrous and urea plant in Medicine Hat, Alberta. WCFL also purchases for resale various fertilizer products marketed under the Westco™ name. The Pool owns one third of WCFL along with its neighbouring Pools in Manitoba and Saskatchewan. Each year, the Pool reflects in its financial results its proportion of WCFL earnings and financial position. It is WCFL's policy to pay cash dividends to the Pools once its obligations have been fully funded.

Historically, WCFL's net earnings have been reasonably volatile. The strong results in 1996 and 1997 directly relate to world pricing levels for nitrogen/anhydrous and urea products and WCFL's participation in the manufacturing of these products in Medicine Hat.

POOL OPERATIONS

For fiscal 1997, the Pool derived \$22.5 million from its operations, up from the \$18.4 million reported in fiscal 1996. Pool operations are its core businesses of handling and marketing grains and oilseeds and selling agricultural inputs to farmers. To undertake these businesses, the Pool views its primary asset as its people who manage, operate and administer its country gathering system, logistics, marketing, ocean terminals and agro service centres. The Pool recognizes and is addressing the need to make these core businesses more efficient, effective and profitable. In its quest for greater profitability it has undertaken major physical and staffing improvements over the past two fiscal years and is making progress toward achieving higher, sustainable profits. There is much more to be done to realize the Pool's full potential.

The core businesses of Grain and Agro are managed separately. From the farmer's viewpoint the two businesses are closely linked. In the late fall and

winter each year Alberta Pool Producer Service Representatives and Certified Crop Advisors sit down with farmers to plan the coming crop year. The Pool shares insights into markets, end user demands, global pricing trends, and improving technology. Farmers, mindful of land use agronomics, make decisions on what to plant and how to effectively prepare the soil and nurture the crops. This directly influences the sales of agricultural inputs which occur principally in the spring and early summer, making this part of the Pool's business largely one conducted in its fiscal fourth quarter ended July 31st. Working with the Pool's professionals, farmers plan their marketing programs and schedule deliveries to the country gathering system of elevators and terminals. These deliveries increasingly occur year-round in order to manage logistics effectively and match marketing needs to deliver products to end-use customers year-round. It is important to note that movement to market is one continuous chain of activity and therefore earnings are based on throughput to markets. The marketing is undertaken by the Canadian Wheat Board, XCAN Grain Pool Ltd. (one third owned by Alberta Pool), and the Pool's own staff.

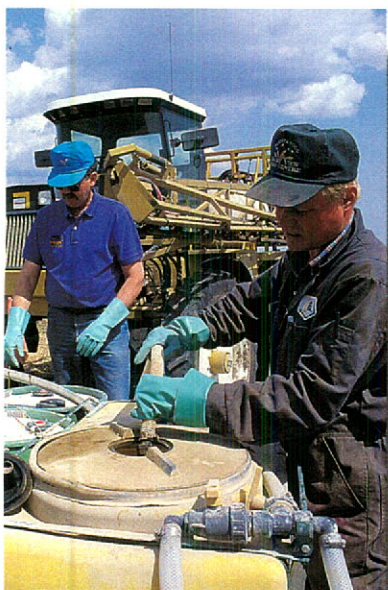
Core Business Earnings
(\$ in millions)



The business proposition is that if farmers get the very best service and products available in the industry rendered at

Management's Discussion and Analysis

continued



competitive prices, and they participate in the ownership of the Pool through dividends received, then they will increasingly patronize Alberta Pool. In 1997, the Pool's market share of all grains received increased from 54.6 % to 57.5%.

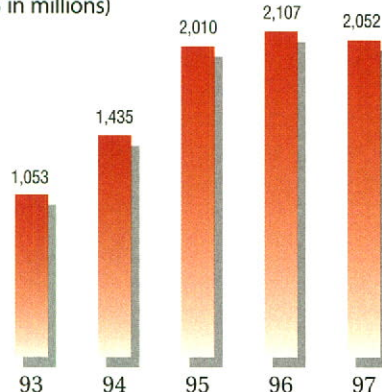
Nonetheless, in the business of agriculture, the Pool's operations are subject to year to year fluctuations in the volume and quality of crops and the ability of transportation infrastructure to move crops to market. This past year, with a harvest in the fall of 1996 which was 3.0% larger than that of the previous year, shipments rose from 5.5 to 5.7 million tonnes. The winter of 1997 was particularly harsh and the extreme cold hampered movement of grains and oilseeds to market by rail to the ports of Vancouver and Prince Rupert. With a large 1996 crop and increased delivery market share, modest shipments meant a higher closing inventory tonnage at July 31st, 1997 than historically has been the case. The Pool is well positioned to start fiscal 1998 with high shipping volume.

REVENUES

Over the recent five year period, the Pool has increased the revenues derived from its grain and oilseed business and its various agri-businesses. A general decline in the price of grains, oilseeds and fertilizer stalled growth in 1997.

Gross Revenue

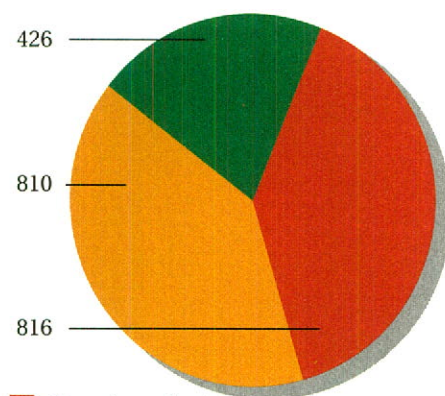
(\$ in millions)



Gross revenue is derived from three sources. The grain business earns revenues based on its handling of wheat and certain barley for the Canadian Wheat Board on a per tonne tariff basis; separately, it earns revenues on handling and marketing other grains and oilseeds on a per tonne and mark-up basis. In addition, revenues are derived from the Pool's various agri-businesses.

Sources of Gross Revenue

(\$ in millions)



- Board marketing
- Non-board and XCAN Marketing
- Agri-businesses

Grain

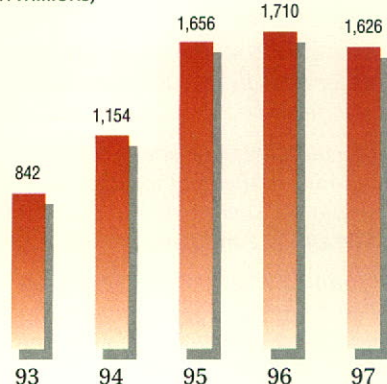
The agri-business unit was separated from the grain business unit in 1996. Since the transition of responsibility for agricultural input sales has been gradual, a clear delineation of earnings between the Grain and Agro businesses will not be seen until fiscal 1998. Revenues derived by the grain business are made up of:

- handling tariffs
- elevation tariffs
- cleaning revenue
- drying revenue
- storage revenue
- merchandising of grain and oilseeds for the Pool's account
- sale of by-products (or screenings)

The majority of revenues are considered earned at the time shipments are made from the facilities. Therefore, the increase in market share of 2.9% in grain received into the system is not reflected in increased revenues until shipment occurs.

A large part of the increase in grain business revenue was influenced in 1995 and 1996 by the rapid increase in grain and oilseed prices. The increase in 1996 over 1995 would have been greater were it not for a reduction in volume from 1995, a year which benefited from large opening inventories. The decrease in 1997 resulted from the general decline in prices as the year went on; volumes shipped increased by 4.0% over 1996.

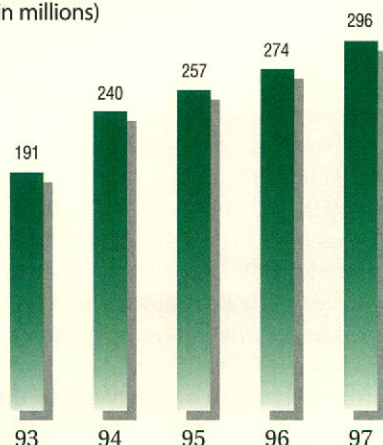
Gross Revenue - Grain Marketing (\$ in millions)



Agro

In 1997 the separation of the agricultural input business from the Grain business was completed. This resulted in the establishment of 84 focussed agro centres. In addition, the Pool undertook a number of business acquisitions of well managed, independent retail outlets which will provide growth in 1998. The Pool also invested \$14.9 million in the year, continuing its program of improving on site facilities and application equipment. Gross revenue continued steady growth in 1997 despite slightly reduced fertilizer prices.

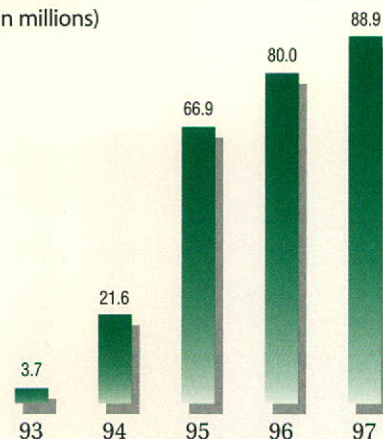
Gross Revenue - Agricultural Inputs (\$ in millions)



Special Crops

Volatile world markets in mustard and export feed peas slowed the growth of the Special Crops business unit in the past year. Equipment upgrades at the special crop processing facilities in Lethbridge continue to improve the operating efficiency and revenue generating capacity within the unit. New crop alternatives to enable Alberta farmers to improve return are continually being evaluated.

Gross Revenue - Special Crops (\$ in millions)

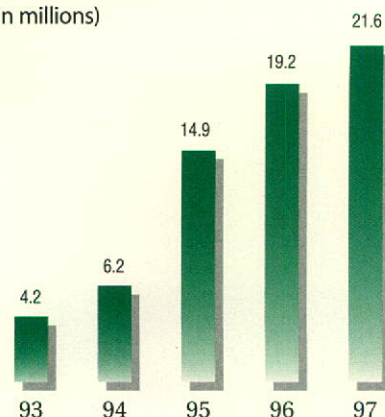


Bean Business

Geographically expanding contract production into Saskatchewan and Manitoba, along with increased acreage in

southern Alberta have continued to develop a solid core of competent and dedicated producers. Development of value added product will increase revenue for the Pool and its members. Gross revenue is expected to increase again for the 1998 crop year as pre-booked contracted production is at an all time high.

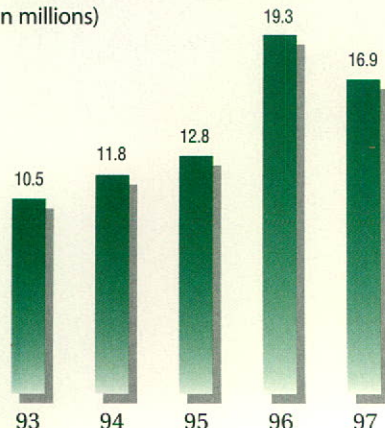
Gross Revenue - Bean Business (\$ in millions)



Seed Business

The Pool's Ultrabred™ products continued to significantly provide a sound basis for the seed business. Seed cleaning was interrupted during completion of the upgrade at the Camrose processing plant which increased capacity from 7,000 to 22,000 tonnes annually.

Gross Revenue - Seed Business (\$ in millions)



Management's Discussion and Analysis

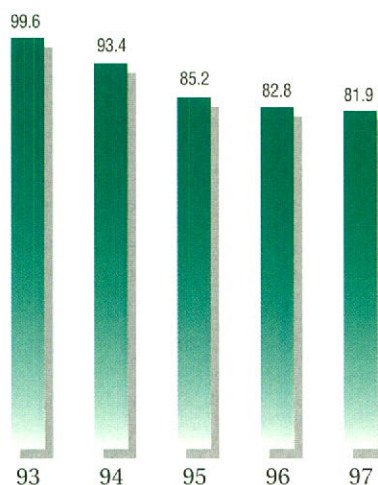
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EXPENSES

Expenses remained relatively constant as a percentage of net revenue at 81.9% in 1997. Salaries and related benefits account for almost 45% of total expenses in the year. Base salary and wage levels are remaining largely flat and additional remuneration is provided in the form of payments from the Performance Enhancement Program. This program, introduced in 1996, supplements regular employment income on the basis of a combination of Pool results and group performance. The first full year of outsourcing the Information Technology function to DMR Group has successfully reduced costs and improved systems performance. The employees transferred from the Pool to DMR led to a reduction in Human Resource costs offset by an increase in operating and general and administrative costs. Increased costs of depreciation and repairs and maintenance results from the Pool's implementation of the Country Plan, teardown of old facilities, and improved condition of existing facilities.

Expenses as a % of Net Revenue



LIQUIDITY AND CAPITAL RESOURCES

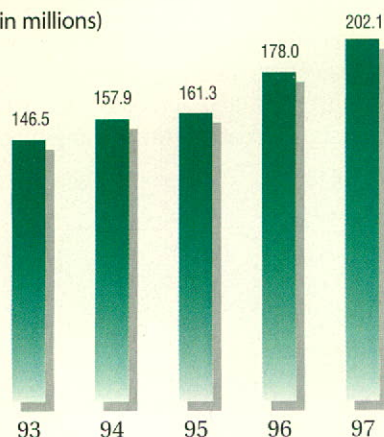
Alberta Pool's financial strength has grown substantially in the last two years. During this period, a number of steps have enabled the Pool to be financially better equipped to take advantage of the opportunities presented in a quickly changing business environment.

- *Earnings available for patronage allocation of \$28.2 and \$34.2 million in 1996 and 1997.*
- *Cash flow from operating activities of \$22.0 and \$55.2 million in 1996 and 1997.*
- *Disciplined approach to capital expenditure of \$25.3 and \$65.5 in 1996 and 1997 so as to ensure payback estimates and people resources in place to realize benefits.*
- *Issue of \$100 million in long-term senior notes in 1996 to match maturities to the expected lifespan of fixed assets.*
- *The members' voluntary investment in loans to the Pool together with the employees' savings have increased by \$3.4 and \$1.2 million in 1996 and 1997.*
- *Commencement of new members' Equity Plan in 1996 with meaningful patronage dividends of \$19.4 and \$23.5 million declared in 1996 and 1997 to reinforce the advantage of doing business with the Pool; of the amounts declared, \$5.9 and \$7.0 million was paid out in cash with the balance being scheduled for pay out in the years from fiscal 1999 through 2036. This equity is an effective means of financing fixed assets, many of which will have similar lifespans.*
- *Permanent retained earnings increased by \$8.9 and \$10.1 million in 1996 and 1997.*

To illustrate the impact of these steps, working capital is now a healthy 1.60:1.00 and the ratio of long term obligations to equity has improved to 47:53.

Members' Equity

(\$ in millions)



The assets are largely unencumbered, consequently the Pool has the ability to operate in a flexible and prudent fashion. The Pool enjoys excellent relations with its bankers and long-term note holders and its commercial paper is rated R-2 (Middle) by independent rating services. During 1997 The Bank of Nova Scotia assumed the position as lead financial partner; the bank was fully supportive and stood ready to provide the financing for the takeover of United Grain Growers had the purchase been consummated and its operations been merged with those of the Pool. The Pool believes the funds provided from operations, coupled with the available lines of credit are sufficient to meet its foreseeable cash requirements. Nevertheless, the agriculture industry is changing rapidly in western Canada and the Pool has proven the ability to source additional financing as required.

RISK INHERENT IN THE BUSINESS

The Pool purchases and sells agricultural commodities at prices determined by local and export markets. For commodities in which applicable futures markets exist, purchase and sales prices are expressed in relation to current futures market values, referred to as the

'basis'. The pricing basis for purchases is determined by contracted or projected sales values as well as local competition, and considers costs which are expected to be incurred by the Pool from the time the grain is acquired until it is moved into sales position. The difference between the basis on purchases and basis on sales, after expected costs are deducted, is known as 'basis risk'.

To manage the risk of general fluctuations in grain prices, the Pool uses futures markets, where practical, or undertakes "back-to-back" buying and selling, particularly in those commodities for which futures markets are not applicable. Basis risk exposure is also managed through back to back transactions although this is often not practical and the Pool is required to establish purchase or sales basis levels on historical data and projected market conditions. It is impossible to be fully hedged at all times.

The Pool has limited price risk associated with the procurement of grain purchased for the Canadian Wheat Board. Full reimbursement is received from the CWB of the initial price paid by the Pool to farmers on its behalf, as well as for storage and interest costs.

XCAN follows the same risk management strategies as the Pool.

The Pool manages interest rate risk of its short term borrowing using 30, 60, and 90

day instruments. The majority of interest rate exposure is naturally hedged through the program of long-term financing.

Foreign currency transaction risk is managed using future currency contracts or forward exchange contracts.

Financial risks associated with accidental loss are reviewed with the Pool's insurance agent, Canadian Pool Agencies Limited. It provides loss prevention services and places insurance with a number of insurers on behalf of the Pool. Coverages include a variety of exposures encompassing fidelity, property and casualty. Where possible, property insurance is placed with the Pool's jointly-owned insurer, Pool Insurance Company, which spreads the self-insured losses over time and cedes catastrophe coverage to reinsurers.

The primary thrusts of the Pool's environmental program are to manage risks to the public, the environment and the organization; to ensure compliance with regulations and operating licenses; and to enable continuous improvement. To ensure operations are carried out in a manner to protect against environmental liabilities a corporate policy, a set of environmental code of conduct principles and programs have been established and put into place. This past year this policy and supporting principles were revised to reflect our environmental commitment, current needs and expectations.



Return to Stakeholders



Patronage Allocation

It is critical that Albert Pool strikes a reasonable balance between building permanent equity and allocating earnings to members. After careful review of the year's results, the Board of Directors has allocated 30% of net earnings to retained earnings and the remaining 70% to members. Alberta Pool's Member Equity Plan offers members the opportunity to participate in the grain, special crops, beans, export seed, and agro earnings pools. The calculations below illustrate the expected payments from each of the earnings pools.

Earnings available for patronage allocation (000's)	\$34,223
Less preferred share dividends	559
	33,664
Less: 30% Allocation to Retained Earnings	10,099
Total Patronage Allocation	\$23,565

Earnings Pool	Allocation Base	Total Allocation	Allocation per Unit
Grain	Tonnes delivered	\$9,927	\$1.86 / tonne
Special Crops	Tonnes delivered	13	\$0.22 / tonne
Beans	Tonnes delivered	30	\$1.30 / tonne
Export Seed	\$ value of deliveries	28	\$0.16/\$100 of deliveries
Agro	\$ value of purchases	13,567	\$6.72/\$100 of purchases

After calculation of each member's patronage allocation and the deduction of applicable withholding taxes, the allocation will be made on the following basis:

• 20% refunded as cash • 40% credited to revolving equity • 40% credited to long-term equity

Performance Enhancement Program (PEP)

PEP recognizes and compensates employees for the achievement of corporate and team targets, and further motivates them to strive for excellence and positive business results. As the Pool achieves its overall corporate performance objective, PEP provides performance awards to employees.

Asset management is the key focus in our overall goal to improve earnings available for patronage. Return on Assets (ROA) of 10.7% has been established as our targeted minimum. In order to initiate the program with realistic and attainable targets during a period of significant organizational and financial restructuring, an interim ROA trigger of 9.55% has been established.

1996/97 financial results support PEP award distributions.

Return on Assets (000's)

Earnings available for patronage	\$ 34,223
Add back:	
Estimated PEP payout	2,447
Interest expense	9,373
Depreciation and amortization	20,226
	32,046
Adjusted for:	
W.C.F.L. earnings (net of taxes)	(16,657)
Unusual items	1,830
Costs not associated with core business	50
	(14,777)
	\$ 51,492
Average Total Assets excluding WCFL and investments	\$512,272
Return on Assets	10.05%

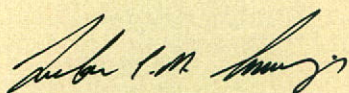


Management Report

The accompanying consolidated financial statements of Alberta Wheat Pool together with other information contained in this annual report have been prepared by Management, who have full responsibility for them, and approved by the Board of Directors. The statements reflect the results for the year ended July 31, 1997, and the financial status of the organization as at that date.

Management's responsibility includes ensuring that the financial statements are presented in accordance with generally accepted accounting principles, and that appropriate systems of internal control are in place to provide reasonable assurance as to the reliability of the financial information, as well as the safety of all of the organization's assets. The Board of Directors' approval of the financial statements and related information is carried out principally through its Audit and Finance Committee which reviews them with Management and recommends their approval by the Board.

These consolidated financial statements have been examined by the Members' auditors, Ernst & Young, whose report is presented separately. Concurrent with their examination, the auditors had full access to the Audit and Finance Committee on all matters pertaining to the financial presentation and internal controls, as well as other related issues.



G.E. Cummings
Chief Executive Officer



G.D. Southwood
Chief Financial Officer

Auditors' Report

To the Members of Alberta Wheat Pool:

We have audited the consolidated balance sheet of Alberta Wheat Pool as at July 31, 1997 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Co-operative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Co-operative as at July 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements for the preceding year, prior to the restatements described in notes 10 and 17, were audited by other auditors who expressed an opinion without reservation on these statements in their report dated September 30, 1996.

Calgary, Alberta
September 24, 1997



Ernst & Young
Chartered Accountants

Consolidated Balance Sheet

As at July 31

(Prior year restated - Notes 10 and 17)

	1997 \$(000s)	1996 \$(000s)
ASSETS		
Current		
Cash and short term investments (Note 3)	30,930	30,865
Accounts receivable	153,844	148,394
Inventories (Note 4)	217,120	207,229
Prepaid expenses	7,164	8,312
	<u>409,058</u>	<u>394,800</u>
Capital Assets (Note 5)	222,998	178,973
Investments (Note 6)	18,528	12,819
Other	3,033	2,784
	<u>653,617</u>	<u>589,376</u>
LIABILITIES AND MEMBERS' EQUITY		
Current		
Cash tickets outstanding	31,312	43,531
Short term loans (Note 8)	92,306	60,969
Accounts payable and accrued liabilities	125,120	100,936
Taxes payable	4,825	8,296
Current maturity of long term debt	1,353	685
	<u>254,916</u>	<u>214,417</u>
Loans from Members and Staff (Note 7)	51,673	50,509
Long Term Debt (Note 8)	125,192	126,545
Other Long Term Liabilities (Note 9)	19,687	19,954
	<u>451,468</u>	<u>411,425</u>
MEMBERS' EQUITY (Note 10)		
Equity Allocated to Members	145,981	131,882
Retained Earnings	56,168	46,069
	<u>202,149</u>	<u>177,951</u>
	<u>653,617</u>	<u>589,376</u>

See accompanying notes

APPROVED ON BEHALF OF THE BOARD



T.A. Graham, Director



J.F. Pearson, Director



Consolidated Statements of Operations and Retained Earnings

For the Year Ended July 31
(Prior year restated - Notes 10 and 17)

	1997 \$(000s)	1996 \$(000s)
Revenue		
Sales and other operating revenue	2,051,654	2,107,334
Cost of sales	1,821,182	1,884,042
	<u>230,472</u>	<u>223,292</u>
Expenses		
Human resources	84,598	87,538
Operating and general and administrative	47,086	40,266
Depreciation and amortization	20,226	18,777
Repairs and maintenance	10,566	9,248
Interest (Note 8)	9,373	11,397
Property taxes	9,256	9,796
Rentals	7,591	7,766
	<u>188,696</u>	<u>184,788</u>
Earnings from operations	41,776	38,504
Unusual items (Note 11)	(1,830)	(1,662)
	<u>39,946</u>	<u>36,842</u>
Earnings before income taxes and patronage allocation	39,946	36,842
Provision for income taxes (Note 12)	(5,723)	(8,594)
	<u>34,223</u>	<u>28,248</u>
Earnings available for patronage allocation	34,223	28,248
Patronage allocation (Note 10)	(23,565)	(19,383)
	<u>10,658</u>	<u>8,865</u>
Retained earnings, beginning of year	46,069	37,204
Dividends paid	(559)	-
	<u>56,168</u>	<u>46,069</u>
Retained earnings, end of year	<u>56,168</u>	<u>46,069</u>

See accompanying notes

Consolidated Statement of Cash Flows

For the Year Ended July 31

(Prior year restated - Notes 10 and 17)

	1997 \$(000s)	1996 \$(000s)
Cash provided by (used in):		
Operating Activities		
Earnings available for patronage allocation	34,223	28,248
Items not affecting cash		
Depreciation and amortization	20,226	18,777
Write down of investments and capital assets	2,000	5,349
Equity earnings from investments	(664)	(621)
Gain on sale of capital assets	(68)	(368)
	<u>55,717</u>	<u>51,385</u>
Change in non-cash working capital	(567)	(29,392)
	<u>55,150</u>	<u>21,993</u>
Financing Activities		
Dividends paid	(559)	-
Proceeds from debt offering	-	100,000
Decrease in long term debt	(1,353)	(685)
Members' equity payments	(9,466)	(11,558)
Increase in loans from members and staff	1,164	3,435
(Decrease) increase in reclamation costs	(267)	344
Change in non-cash working capital	7,755	5,059
	<u>(2,726)</u>	<u>96,595</u>
Investing Activities		
Purchase of capital assets	(65,452)	(25,326)
Proceeds on disposition of capital assets	1,849	2,591
Increase in investments	(7,375)	(1,433)
Increase in other assets	(499)	(452)
	<u>(71,477)</u>	<u>(24,620)</u>
(DECREASE) INCREASE IN CASH	<u>(19,053)</u>	<u>93,968</u>
Cash, beginning of year	<u>(73,635)</u>	<u>(167,603)</u>
Cash, end of year	<u>(92,688)</u>	<u>(73,635)</u>

Cash is defined as cash and short term investments less cash tickets outstanding and short term loans.

See accompanying notes

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1997

tabular amounts in \$ thousands, unless otherwise indicated

1. NATURE OF BUSINESS

Alberta Wheat Pool (the "Co-operative") was incorporated by a special Act of the Alberta Legislature and is primarily engaged in a single industry segment being the supply of services to the Agriculture industry. The Co-operative conducts substantially all of its business activities with related parties consisting primarily of the Co-operative's shareholder members ("Members") and companies owned or significantly influenced by the Co-operative together with other western Canadian co-operatives. In addition to transactions with members, including grain purchases and sale of agricultural inputs, the Co-operative acquires from and sells to other related parties certain other goods and services in the normal course of business.

The Co-operative returns earnings to Members as patronage allocations based on the member's business with the Co-operative. The patronage allocations are based on five earnings pools being grain, export seed, beans, special crops and agro.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

In preparing its financial statements the Co-operative follows generally accepted accounting principles. The following is a summary of the Co-operative's significant accounting policies:

Principles of consolidation

These consolidated financial statements include the accounts of the Co-operative, its subsidiaries and its proportionate share of the accounts of significant joint ventures.

Inventories

Grains purchased for sale to the Canadian Wheat Board are valued at established initial prices less unearned handling revenues and costs yet to be incurred. Grains and oilseeds purchased for the Co-operative's own account, and related open purchase and sales contracts, are valued on the basis of estimated market values. Other inventories, including special crops, seed and agro supplies are valued at the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost less investment tax credits earned. Depreciation is charged on a declining balance basis at annual rates designed to amortize the cost of the assets over their useful lives.

Investments

The Co-operative uses the equity method of accounting for investments in companies in which it has significant influence. Portfolio investments are stated at cost, less any provisions for permanent declines in value when appropriate.

Revenue recognition

Handling revenues related to country and terminal elevators are considered earned at the time shipments are made from the facilities. Revenues from grain overages or shortages registered in advance at the terminal elevators are recorded at the time of registration. Gains and losses for commodities in which futures markets are available are included in earnings.

Foreign currency translation

Monetary assets and liabilities are translated at the year end exchange rate while non-monetary assets and liabilities and revenues and expenses are translated at the exchange rate prevailing on the transaction date. All exchange gains and losses are reflected in earnings during the period they occurred.

Financial instruments

Unless otherwise stated, the book value of cash and short term investments, accounts receivable and payable, notes receivable, cash tickets outstanding and short term and term loans approximate fair value.

3. CASH AND SHORT TERM INVESTMENTS

	1997	1996
Cash	18,246	30,865
Short term investments (market value \$13,245,815)	12,684	-
	<u>30,930</u>	<u>30,865</u>

Cash balances are largely comprised of funds on deposit within Western Co-operative Fertilizers Limited. These funds are not immediately available to reduce the Co-operative's short term loans.

4. INVENTORIES

	1997	1996
Canadian Wheat Board grains	141,669	130,190
Co-operative owned grains and oilseeds	21,562	37,130
Agricultural inputs and other inventories	53,889	39,909
	<u>217,120</u>	<u>207,229</u>

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1997

tabular amounts in \$ thousands, unless otherwise indicated

5. CAPITAL ASSETS

	1997			1996		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Grain Division	279,311	165,806	113,505	272,076	161,372	110,704
Agri Division	103,201	44,630	58,571	86,108	41,279	44,829
Joint Ventures	77,196	43,914	33,282	59,520	42,485	17,035
Other	35,721	18,081	17,640	23,109	16,704	6,405
	<u>495,429</u>	<u>272,431</u>	<u>222,998</u>	<u>440,813</u>	<u>261,840</u>	<u>178,973</u>

Depreciation rates for all capital assets except the other category varies from 4% to 30% and from 10% to 30% for the other category. During 1997, interest of \$1,036,000 (1996 - \$192,000) was capitalized on major projects under construction.

6. INVESTMENTS

	1997	1996
Equity investments		
Lloydminster Joint Venture - 50%	4,100	3,583
General Mills Sweetgrass Grain Partnership - 50%	1,271	1,207
Equity and advances in other affiliates	<u>8,244</u>	<u>3,771</u>
	13,615	8,561
Notes receivable (Ridley Grain Ltd.)	1,340	3,376
Strategic business investments		
CEAPRO Inc.	2,000	-
Other	<u>1,573</u>	<u>882</u>
	<u>18,528</u>	<u>12,819</u>

7. LOANS FROM MEMBERS AND STAFF

Substantially all loans from members and staff are repayable on a demand basis, are unsecured and bear interest at rates varying from 5 1/2 % to prime less 1 1/4 % which are the same rates as in 1996. The loans are not considered current liabilities as experience has shown that they generally are outstanding for longer than one year. During 1997 interest expense was \$2,657,649 (1996 - \$3,075,758). (See note 8.)

8. LONG TERM DEBT

	1997	1996
Revolving credit and term loan borrowings		
Series A notes (8.75% interest rate)	77,000	77,000
Series B notes (9.30% interest rate)	23,000	23,000
Revolving term loan	15,000	15,000
Term loans	11,545	11,969
Mortgage (6-5/8% due December 1996)	<u>-</u>	<u>261</u>
	126,545	127,230
Less current maturities	<u>1,353</u>	<u>685</u>
	<u>125,192</u>	<u>126,545</u>

Series A and B Notes

The notes are unsecured with interest calculated semi-annually. The Series A notes are repayable in equal annual instalments in December of the years 2001 through 2010. The Series B notes are repayable in equal annual instalments in December of the years 2011 through 2020.

Revolving Term Loan

The revolving term loan has a one year revolving period during which interest is payable at varying rates including prime, bankers' acceptances plus 1/2% or London Inter-Bank Offer Rate plus 1/2%. On an annual basis the revolving period may be extended one year or converted to a four year term loan.

8. LONG TERM DEBT (CONTINUED)

If converted, interest on the four year term loan is payable at varying rates including prime, bankers' acceptances plus 3/4% or London Inter-Bank Offer Rate plus 3/4%. The four year term loan is repayable in quarterly instalments of \$562,500 with the balance due at the end of the fourth year.

The revolving term loan is unsecured and the effective interest rate during 1997 was 4.1 % (1996 - 6.1%).

Term Loans

Term loans are unsecured with \$10,000,000 due January 1999 bearing interest at 10.70% per annum. A four year term loan in the amount of \$1,544,973 is interest free.

The short term loan provides an unsecured borrowing facility in the amount of \$190,000,000 in 1997 (1996 - \$100,000,000).

Interest expense on long term debt was \$10,563,577 during 1997 (1996 - \$7,465,202).

Total interest expense is comprised of long term interest of \$13,221,226 (1996 - \$10,540,960) and short term interest of \$1,884,678 (1996 - \$6,589,139). Total net interest expense of \$9,372,666 (1996 - \$11,396,653) is net of interest recoveries of \$5,733,238 (1996 - \$5,733,446).

Maximum annual repayments of long term debt over the next five years are:

1998 - \$1,353 1999 - \$12,442 2000 - \$2,250 2001 - \$2,250 2002 - \$15,950

9. OTHER LONG TERM LIABILITIES

The Co-operative has an interest of 33% in the ownership of a joint venture operation, Western Co-operative Fertilizers Limited (WCFL). In 1987, WCFL discontinued manufacturing fertilizer at its two processing plants. Subsequent to the closures WCFL retained an independent consultant who estimated the site reclamation and decommissioning costs to be between \$44,000,000 and \$61,500,000. WCFL recorded the maximum provision in 1995 as a charge against earnings. The Co-operative's pro rata share is \$19,687,000 (1996 - \$19,954,000), of which the Co-operative provides no guarantee for the obligations of WCFL. All significant future changes to the estimated costs will be recorded in earnings in the year the revision occurs.

10. MEMBERS' EQUITY

Members' Equity Plan

The Members' equity plan consists of revolving equity accounts, long term equity accounts and three classes of preferred shares.

The revolving equity accounts are intended to grow through allocation of 40% of each year's patronage allocation after deduction of withholding tax. Instalment payments from revolving equity will begin in 1998 and will be in the form of Class B shares. For 1998 and the years following, the repayment of each year's allocation will be made equally over a 10 year period beginning in the year subsequent to the allocation.

The long term equity accounts are credited with 40% of each year's patronage allocation after deduction of withholding tax. Instalment payments of long term equity will be made equally over a 20-year period with the first payment in the year 2015. All payments of long term equity accounts will be in the form of Class B shares.

The remaining 20% of the patronage allocation is paid in cash to members.

Equity Allocated to Members

In 1997 the Co-operative changed its method of accounting for the patronage allocation to comply with the new requirements for disclosure and presentation as recommended by the Canadian Institute of Chartered Accountants. Accordingly, the results for the year ended July 31, 1997 reflect an accrual of the estimated patronage allocation in respect of 1997 business, which will be presented to the delegates for ratification at their annual meeting in November of 1997. Also, to comply with the new requirements, the patronage allocation is reported as a deduction from earnings, rather than a direct charge against retained earnings. The results for the year ended July 31, 1996 have been restated for comparative purposes.

	1997				1996
	Cash	Long-term Equity	Revolving Equity	Total	Total
Members' equity at beginning of year	-	38,762	93,120	131,882	124,057
Allocation of estimated earnings	6,953	8,306	8,306	23,565	19,383
Cash payments	(6,953)	-	-	(6,953)	(5,921)
Transfers	-	(1,563)	(13,757)	(15,320)	-
Members' equity redeemed	-	(172)	(989)	(1,161)	(5,637)
Members' equity at end of year	-	45,333	86,680	132,013	131,882
Share capital	-	-	-	13,968	-
Members' equity	-	45,333	86,680	145,981	131,882

Notes to the Consolidated Financial Statements

For the Year Ended July 31, 1997

tabular amounts in \$ thousands, unless otherwise indicated

10. MEMBERS' EQUITY (CONTINUED)

Share Capital

Authorized

Unlimited Class A preferred non-voting, transferable, cumulative cash dividend at prime less 1 1/4% to be paid quarterly, redeemable on one year's notice subject to approval of the Board, no par value.

Unlimited Class B preferred non-voting, transferable cumulative share dividend at prime less 1/2% to be paid quarterly, redeemable on application to and approval by the Board, no par value.

Unlimited Class C preferred non-voting, transferable cumulative cash dividend at prime to be paid monthly, redeemable on application to and approval by the Board, no par value.

Issued	Class A \$	Class B \$	Class C \$	Total \$
Balance, beginning of year	-	-	-	-
Conversion of equity accounts	-	94	15,226	15,320
Dividends	5	2	-	7
Redemptions	-	(8)	(2,086)	(2,094)
Purchases	735	-	-	735
Balance, end of year	740	88	13,140	13,968

The number of shares equals the dollar value outstanding for all classes of shares.

11. UNUSUAL ITEMS

	1997	1996
Write down in the carrying value of CEAPRO Inc.	(2,000)	-
Write down in the carrying value of Drummond Brewing Company Ltd.	-	(599)
Recovery on liquidation of Drummond assets	170	-
Recovery of shares and loans to an affiliate	-	3,687
Write down of capital assets	-	(4,750)
	<u>(1,830)</u>	<u>(1,662)</u>

12. INCOME TAXES AND EARNINGS RECONCILIATION

The provision for income taxes differs from the combined Canadian federal and provincial statutory rate as follows:

	1997		1996	
		%		%
Earnings before income taxes and patronage allocation	39,946	-	36,842	-
Patronage allocation	(23,565)	-	(19,383)	-
Earnings before income taxes	16,381	-	17,459	-
Income taxes at Canadian statutory tax rate	7,309	44.62	7,790	44.62
Write down of investments and capital assets	892	5.45	2,119	12.14
Benefit not previously recognized	(4,558)	(27.82)	(4,629)	(26.51)
Other	2,080	12.70	3,314	18.98
Income taxes	5,723	34.95	8,594	49.23
Net earnings after income taxes and patronage allocation	<u>10,658</u>		<u>8,865</u>	

13. PENSION PLANS

The Co-operative provides both defined benefit pension plans and defined contribution plans for substantially all of its employees.

The costs of the defined benefit pension plans are charged to expense as service is rendered. At July 31, 1997 the accrued obligation was \$66,647,000 with a market value of plan assets of \$82,871,000 (1996 - obligation of \$65,901,000 and market value of plan assets of \$69,815,000). The related pension expense of the defined contribution plan is equal to the contribution for the year.

14. FINANCIAL INSTRUMENTS

The Co-operative issues long term debt and participates in commodity futures, some of which are negotiated in US dollars. It uses financial instruments to reduce its exposure to fluctuations in commodity futures, foreign currency transaction rates and interest rates but does not speculate in the commodity futures or exchange rate markets.

Credit risk is mitigated through a combination of utilizing established credit policies and dealing with a large and diverse customer base.

Commodity Price Risk Management

The Co-operative uses commodity futures to reduce (hedge) its exposure to price fluctuations on non Canadian Wheat Board grains. Outstanding futures contracts have been valued at fair value resulting in a deferred gain of \$967,193 as at July 31, 1997 (1996 - (\$1,244,239)) with terms in both years not exceeding eight months.

Foreign Exchange Risk Management

The Co-operative enters into exchange rate contracts and options to hedge its exposure on US dollar cash flows. Contracts and options totalling \$19,587,000 US were outstanding at July 31, 1997 (\$19,776,000 US at July 31, 1996).

Fair Values

Fair values represent amounts the Co-operative would have paid or received on July 31 to settle financial instruments prior to maturity. The Co-operative has no intention to settle these instruments prior to maturity. At July 31, 1997 the fair value of the Series A and B notes was approximately \$110,489,000.

15. COMMITMENTS AND CONTINGENCIES

The Co-operative's pro rata share of commitments for joint ventures for letters of credit issued in favor of the Winnipeg Commodity Clearing Ltd. is \$2,042,000 and for a guarantee to facilitate Canadian Wheat Board grain sales is \$5,750,000.

Incident to the operation of its business, various lawsuits and claims are pending by and against the Co-operative. The Co-operative has adequately provided for the expected final determination of these claims.

16. INTEREST IN JOINT VENTURES

The Co-operative consolidates its pro rata share of its joint ventures' accounts at rates that approximate either the Co-operative's ownership interest in or the volume of business with the respective joint venture.

	1997	1996
Consolidated Balance Sheet		
Cash and short term investments	21,639	25,846
Other assets	59,694	45,573
Current liabilities	(30,604)	(10,376)
Long term debt	(6,051)	(6,054)
Other long term liabilities (Note 9)	(19,687)	(19,954)
Net investment in joint ventures	24,991	35,035
Consolidated Statement of Operations		
Revenues	392,624	444,626
Expenses	(373,287)	(425,187)
Net earnings	19,337	19,439
Consolidated Statement of Cash Flows		
Operating activities	44,802	36,695
Financing activities	(443)	85
Investing activities	(44,567)	(10,713)

17. COMPARATIVE FIGURES

In 1997, the Co-operative decided to account for two of its joint ventures as jointly controlled operations as opposed to controlled enterprises. Accordingly, certain amounts reported in the 1996 financial statements have been restated from the full consolidation method previously used to the proportionate consolidation method.

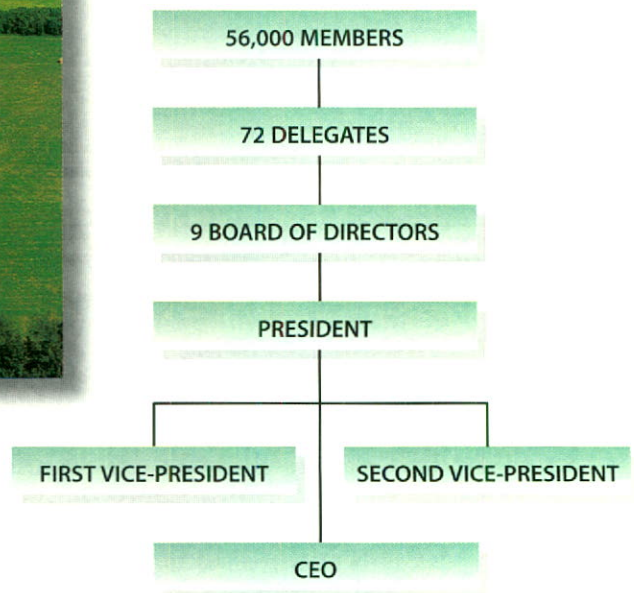
Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Democratic Structure

As a cooperative, Alberta Pool is a democratic organization controlled by its members. The vast majority of Alberta Pool members are farmers who own or rent land. Members actively participate in setting policies and making decisions about the cooperative, and are solely responsible for electing a delegate to represent their sub-district for a three-year term.

Alberta Pool's 72 delegates meet to make decisions and establish policies which govern the operation of Alberta Pool's business. These policies are then implemented by a nine-member Board of Directors who are elected by the delegates within their region.

The Board of Directors hires Alberta Pool's chief executive officer, and elects members of the board to serve as president, first vice-president and second vice-president. The president and first vice-president are the only elected officials who hold full-time, paid positions. The Board of Directors is responsible for providing overall guidance to the CEO and senior management team and is accountable to the membership for the successful operation of Alberta Pool.





Directors and Delegates 1997-98

District One

Director: Brian Lindeman..... Milk River
101 Richard Sauer Maleb
102 Ross H. Ford Coutts
103 Gary P. Schneider Raymond
104 Thomas Neilson Cardston
105 Mutt Tsukishima Coaldale
106 Bryan R. Dillenbeck Foremost
107 John Zeinstra Picture Butte
108 Lynn Jacobson Enchant

District Two

Director: George Groeneveld Blackie
201 Howard Paulsen Stavelly
202 Alan K. Pasolli Champion
203 Michael Monner Milo
204 Richard L. Percifield Blackie
205 Allan Spangler Blackie
206 Gordon Moulton Hussar
207 Lionel M. Bird Carstairs
208 Robert L. Duhn Delacour

District Three

Director: Mel A. McNaughton Rumsey
301 Marvin A. Fischer Hilda
302 Jerry Knapik Acadia Valley
303 Michael F. Gyorfi Bow Island
304 Gordon R. Smillie Bassano
305 A. Laurie Reiffenstein Drumheller
306 Randy R. Gridley Big Valley
307 K. Barry McLeod Delia
308 Donald J. Anderson Consort

District Four

Director: Allen L. Oberg Forestburg
401 Lorne Olson Provost
402 Gilbert Tillmar Hardisty
403 Richard Haydu Paradise Valley
404 Dwayne Cooper Kitscoty
405 Michael Bury Mannville
406 Kevin Loveseth Viking
407 Ian C. Eckstrand Sedgewick
408 Harvey R. Thomas Alliance

District Five

Director: Neil D. Silver Huxley
501 Richard L. Farmer Acme
502 Brian Parry Three Hills
503 George Steckler Didsbury
504 Dennis Hoppins Huxley
505 Douglas Scheerschmidt Stettler
506 Robert E. Northey Red Deer
507 Vacant
508 Dick Wymenga Leslieville

District Six

Director: Albert Pidruchny Myrnam
601 John A. Lawrence Clandonald
602 Pat Gordeyko Two Hills
603 Arden Ziegler Vegreville
604 David Fedun Andrew
605 Peter W. Galloway... Ft. Saskatchewan
606 Leonard Forcade Legal
607 Dwayne M. Severin St. Paul
608 Kenneth R. Shalka Fort Kent

District Seven

Director: John F. Pearson Donalda
701 Donald W. Lundy Forestburg
702 Horst Schreiber Daysland
703 Earl Rasmuson Gwynne
704 J. Brian Walker Wetaskiwin
705 Lars E. Rude Tofield
706 Kenneth Appleby Tofield
707 Randy B. Zutz Stony Plain
708 Earl Hagman Mayerthorpe

District Eight

Director: Dennis Nanninga Barrhead
801 Orest Sebzda Waskatenau
802 Russel F. Ewaskow Thorhild
803 Charles L. Jenkins Grassland
804 David Felstad Dapp
805 Lawrence L. Miller Barrhead
806 William Marx High Prairie
807 Rene Blanchette Girouxville
808 Allan Lavoie St. Isadore

District Nine

Director: T. Alex Graham Spirit River
901 Bryan Woronuk Rycroft
902 Harry Schudlo Sexsmith
903 Wayne Longson Beaverlodge
904 Garry Smolik Dawson Creek
905 Doug J. Parker Cecil Lake
906 Ralph G. Moskalyk Fairview
907 Leonard Anderson Grimshaw
908 Jay Lanti High Level

Corporate Information

Board of Directors

President
T.A. Graham Spirit River
First Vice-President
J.E. Pearson Donalda
Second Vice-President
N.D. Silver Huxley
G.A. Groeneveld Blackie
B.G. Lindeman Milk River
M.A. McNaughton Rumsey
D. Nanninga Barrhead
A.L. Oberg Forestburg
A.L. Pidruchney Myrnam
J.R. Anderson
Corporate Secretary

Management Executive

G.E. Cummings, FCMA
Chief Executive Officer
B.D. DuPont
Director, Human Resources and
Administration
R.E. Gorst
General Manager, Grain Division
D.V. Riddell
Director, Corporate Affairs
A.F. Rodenburg
General Manager, Agri-Business Division
G.D. Southwood, C.A.
Chief Financial Officer
B.A. Heinrich, CMA
Treasurer



Head Office

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Subsidiaries/Affiliates

Alberta Industrial Mustard Company Limited
Canadian Pool Agencies Limited
Demeter (1993) Inc.
Pool Commodity Trading Services
Pool Insurance Company
Pacific Elevators Limited
Prairie Sun Grains Ltd.
Prince Rupert Grain Ltd.
RADSS Technologies
Western Co-operative Fertilizers Limited
XCAN Grain Pool Ltd.

Joint Venture Partners

General Mills Inc.
Prairie West Terminals Ltd.
UFL Foods Ltd.

Legal Counsel

MacKimmie Matthews

Auditor

Ernst & Young

Banker

The Bank of Nova Scotia

Corporate Profile

Alberta Pool is a farmer-owned cooperative that handles and markets grain, seeds and oilseeds both domestically and internationally. Fully integrated grain handling, marketing and agri-business services are offered to farmers through a network of grain elevators and agro centres located throughout the agricultural regions of Alberta and northeastern British Columbia. Grain is exported to international customers through the Pool's terminals on the West Coast.

Alberta Pool is a world leader in developing grain handling technology and has introduced new, improved crop varieties to benefit its farmer-members and respond to customer demands for seed and crop expertise. The Pool is also involved in many expanding agricultural markets such as mustard, peas, beans and oats.

Organized in 1923, Alberta Pool today has 56,273 members and employs 1,433 people at locations throughout Alberta, northeastern British Columbia, Winnipeg, Vancouver and Minneapolis. Since its creation, the Pool has handled close to 200 million tonnes and returned more than \$413 million to its member-owners.

Alberta Pool application crews work from dawn to dusk during the busy spring season, helping farmers achieve profitable results.



Our Commitment to the Environment—This year's Annual Report is printed on recycled paper. It was printed with a vegetable-based ink containing canola oil that performs exceptionally well and produces brighter, cleaner colours. At Alberta Pool, we incorporate environmental considerations into all our operations.



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